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Canada — Alberta Crop Insurance

Report of the Alberta Review Panel

EXECUTIVE SUMMARY

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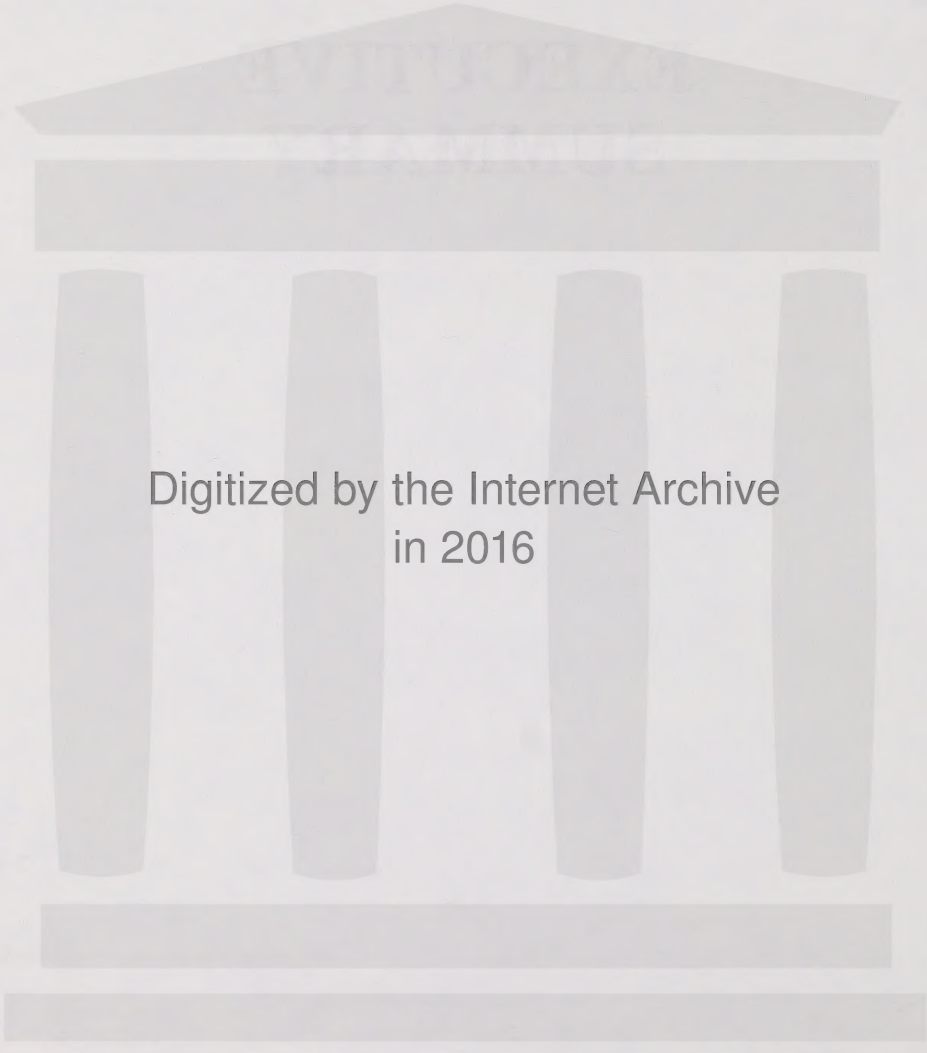
EXECUTIVE SUMMARY



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CHAPTER 1

EXECUTIVE SUMMARY

1.1 Introduction

After two successive years of severe weather-related problems in the crops sector of the farming industry in Alberta, it was deemed advisable to conduct a comprehensive review of the Canada-Alberta Crop Insurance Program. The purpose of the review was to assess the efficacy of the program and recommend ways and means by which the program could be enhanced to better serve the risk protection needs of Alberta producers. One hundred and thirty-two written briefs were received by the review panel, from producers, farm organizations and other interested parties. A series of 4 formal and 39 informal hearings were held across the province. Informal meetings were attended by a total of about 655 people. Insurance related research was conducted to help assess the existing program and determine cause and effect of various alternative proposals.

This document reports on the findings and recommendations of the review panel.

1.2 Principles Of Crop Insurance

Insurance is the pooling of risk by a large number of participants, spread over a sufficient time span to be predictable in terms of cost. Ideally, the participants should be homogeneous and the area to which the insurance applies should also be homogeneous. Future yields are predicted on the basis of historical experience. The longer the historical base, the more stable and accurate the predictions become for the future. However, a shorter base will better reflect the effects of technological change.

Actuarial soundness is the goal of any insurance program. It is achieved if the total revenue from premiums balances the total indemnities paid out over a sufficiently long period of time. Actuarial soundness in a crop insurance program not only implies the overall financial integrity of the program, but it also means equity and fairness among risk areas, and among producers within a given area.

Coverage levels and premium rates should be set in a manner that will not influence farm management decisions one way or the other. In other words, crop insurance should be resource neutral.

The crop insurance program is yield insurance, not price or income support. Fundamentally, the producer pays a premium rate, expressed in bushels per acre, for a specified coverage level, expressed as well in bushels per acre. From a practical and administrative point of view, the yields used for coverage levels and the premium rates are converted to monetary terms by use of a price factor. This price factor should never exceed the going market price for the crop, otherwise the system will be open to abuse.

Because risk areas, and the farming practices within a risk area, are not completely homogeneous, it is necessary to apply special adjustments to maintain actuarial soundness. These adjustments take the form of enhanced coverage levels or reduced premiums for the better-than-average farm manager or the farm with lower risk. Conversely, premium surcharges and/or reduced coverage should be imposed on producers who, for whatever reason, have a high number of claims and a high loss-to-premium ratio. It is a basic tenet of equity and fairness in crop insurance that there must be a symmetrical distribution of the results of adjustments around the average yield. The basic requirement is that the special adjustments be consistent with the principles governing the long-run actuarial soundness of the program.

1.3 Crop Insurance Survey

A survey of 2,405 producers from all regions of the province, was conducted by Angus Reid and Associates for the purpose of assessing the views of producers with respect to crop insurance.

The survey found some tendency for younger and middle-aged producers to have larger farms, higher gross sales, larger debt load and higher off-farm incomes than older producers. These producers tended to be more likely to purchase crop insurance.

There is a high level of concern about probable crop loss. The degree of concern appeared to be directly related to the vulnerability of the individual producer in terms of risk area, diversity of income, financial security and size of farm. While producers reported many different means by which they could reduce their level of concern about having a crop loss, "getting crop insurance" was the number one alternative. The main reason given for not buying insurance was that coverage level was too low and/or premiums were too high.

Operationally, the Alberta Hail and Crop Insurance Corporation (AHCIC) received a high level of endorsement. While there were some complaints about adjustments being inadequate, province-wide 92 percent of claimants rated the service they received as satisfactory or very satisfactory.

When asked to express their level of concern about different insurance issues, the following four were most frequently mentioned:

* Abuse of the program.
* Reduction in coverage due to claims.
* Inability to claim for spot-loss.
* Cost of premiums.

A majority of producers indicated a willingness to pay higher premiums for higher levels of coverage, but did

not, or could not, indicate how much more they would pay. Many had expressed concern about the cost of premiums, which suggests that there would be resistance to any increase other than a very modest one.

1.4 Issues

The four formal hearings, followed by 39 informal hearings throughout the province, brought to light a vast number of issues that concern producers.

The more salient issues which impact most heavily on the program are:

— Coverage levels: A great deal of significance was attached to the level of coverage when converted to a dollar value. There was an expressed need to keep this as high as possible, so as to allow producers to recover as much of their production costs as possible. To achieve higher coverage, three major proposals were submitted; tie coverage to input costs, introduce a deductible clause and reduce the punitive loss of coverage due to claims.

— Abuse: While there is widespread belief that the program is abused, there is no accurate means of measuring such abuse. The net effect of this perception, however, is a reduced participation in the program. Many suggestions were offered as to how abuse might be reduced, the most notable being a move to individual coverage.

— New concepts: A number of proposals suggested a departure from yield guarantee and adoption of some form of price or income insurance.

— Premiums. The principal concern was the relationship of premium to the amount of coverage available. Producers want premiums to be affordable.

— Government/producer cost sharing: Predominant among comments on the sharing of costs was the proposal that the provincial government should share in the cost of premiums on a tripartite arrangement.

— Individual coverage: There was a lot of support for individual coverage for two main reasons; it is seen as a means of eliminating abuse and of increasing coverage for the better-than-average producer.

— Spot-loss: A spot-loss coverage for all-risk insurance was proposed by many who felt it would enhance their chances of a payout.

— **Ad hoc** emergency programs: Producers expressed a general dislike for **ad hoc** programs, citing unfairness as the principal reason. Instead, producers would prefer some formal type of disaster fund to which producers and governments would contribute.

— Many other issues of lesser significance were brought forward. These are reported in detail in Chapter 4.

1.5 Crop Insurance Comparisons With Other Jurisdictions

While the program offered in Alberta is generally similar to the programs in the other provinces and the U.S., there are some differences of note:

— The U.S. is on an individual coverage format.

— Ontario and Quebec provide individual coverage only.

— The U.S. program permits an integrated participation by the private sector.

— In Quebec, costs are shared 25 percent by the province, 25 percent by the federal government and 50 percent by the producer.

— Coverage to 80 percent of average yield is attainable in Ontario and Quebec.

— Ontario uses commission agents to market and service the program.

— Alberta is the only jurisdiction to offer a high-risk subsidy.

The Alberta crop insurance program encompasses all or most of the directly comparable features found in the other provincial and U.S. programs.

1.6 Effects Of The Alberta Hail And Crop Insurance Program On Resource Sustainability

It is estimated that the combined losses from major soil degradation problems are costing Alberta producers in excess of $100 million per year through reduced productivity. Inappropriate farming practices are responsible for a significant portion of the decline in the quality of Alberta soils. Crop insurance, to the extent that it influences cropping practices, has an effect on the sustainability of the soil.

There are three areas of the AHCIC program that impact negatively and one that impacts positively on the sustainability of our soils:

— Fallow-stubble coverage differential that encourages summerfallow rather than continuous cropping. This leaves the soil susceptible to erosion, organic matter decline, and groundwater recharge that leads to dryland salinity.

— The high-risk subsidy encourages cereal-fallow rotations rather than cereal-forage rotations. The latter is more conducive to soil conservation in many regions.

— Area-average coverage can mask the financial penalties associated with poor management practices. It is these poor managers' fields that are most susceptible to soil degradation.

— The Livestock Feed Security Program provides greater security to producers of forage crops and livestock which, in turn, encourages the production of forage crops on soils prone to salinity and erosion. The long-term effect should be a reduction in soil degradation.

1.7 Crop Insurance Research Projects

Instability has been an inherent characteristic of the

prairie grain industry. Over the period 1960 to 1985, the average year-to-year variation in net farm income was 28.5 percent. Few other occupations face a year-to-year income variability of this magnitude.

Stabilization programs such as the Western Grain Stabilization Plan (WGSP) and others, including **ad hoc** programs, have helped to alleviate the problem, but only to a limited extent. When these payments are subtracted from total net farm income for 1984, Alberta producers actually had a negative net income from farming operations.

Research has shown that crop insurance alone cannot address this problem. Moreover, existing programs, while beneficial within the limitations of their mandate, do not provide the protection producers need, nor do they remove the need for *ad hoc* emergency programs as evidenced by events in 1984 and 1985.

Considerable research has been carried out to address concerns of the existing crop insurance program, and to propose ways and means of enhancing the program. Additionally, researchers have designed two proposals to address the dual problems of widespread disaster due to natural causes and income variability due to market and production cost anomalies. The "Disaster Insurance Program" and "Prairie Grain Revenue Insurance Program" are reported briefly later in this chapter and in more detail in Chapters 7 and 8.

Continuing research is essential to adjust the crop insurance program to changing technology and conditions over time.

1.8 Recommendations

Three major recommendations presented are: development of a Prairie Grain Revenue Insurance Program, a Disaster Insurance Program and individual coverage for all producers with crop insurance.

These recommendations have been made in response to an expressed need by a prevailing number of producers and farm organizations throughout the hearings.

Their concerns include:

— A need for adequate insurance to cover input costs.

— A producer's coverage level and premium should not be affected by area-wide crop disasters.

— A need for low-cost protection against area-wide disasters.

— Reduce or eliminate need for ad hoc programs by developing long-term integrated programs to adequately stabilize the inherent volatility of production, price and markets.

— Coverage levels need to reflect an individual's productivity rather than area averages.

The recommendations appear in three sections:

— Prairie Grain Revenue Insurance Program; to address the producers' concerns relating to income uncertainty and instability.

— Disaster Insurance program; to develop a systematic approach to providing protection against occasional widespread disasters and to remove the need for *ad hoc* programs.

— Crop Insurance; for the purpose of providing protection to producers against the short-term hazards of climatic perils.

Crop insurance is considered under three subsections: individual coverage, area-average coverage (which becomes irrelevant if individual coverage is accepted) and general recommendations that are relevant for crop insurance regardless of the coverage mechanism adopted.

Approximately 40 separate issues were identified as a result of the public hearings. The recommendations are organized to address these specific issues. Some form of a development plan is required if these recommendations are to be implemented. To aid in this process, each recommendation is labelled to indicate a desirable time frame for implementation:

1987 — Recommendations which can and should be implemented for the upcoming crop year.

1987(p) — Recommendations which are preferred to be implemented for the 1987 crop year. Necessary studies should start in 1987 for 1988 implementation at the latest.

1988 — Recommendations for which some short-term research and consideration may be required prior to implementation. Should be in effect for the 1988 crop year.

C — Continuous.

1.8.1 Prairie Grain Revenue Insurance Program

Background

Over the period 1960 to 1985, the average year-to-year variation in net farm income was 28.5 percent (Chapter 7). Major source of income variation for crops results from shifts in production levels and price. Crop insurance has been designed to deal with crop yield instability, **not** price variability problems, market constraints or production cost increases.

While large payments have been made under the Western Grain Stabilization Plan, it is not sensitive to particular conditions at a regional or an individual producer level. This lack of sensitivity was raised at the hearings, where producers expressed the need for higher coverage levels under crop insurance to cover input costs. For reasons given, a combination of WGSP and crop insurance does not satisfy the producer in meeting this need.

A Prairie Grain Revenue Insurance Program, as proposed, would provide an explicit price policy closely integrated with crop insurance.

An example as to how the program could work is as follows:

— The program would provide a price guarantee equivalent to 80 percent of the ten-year moving average price on quantities of grain in accordance with an individual's coverage under crop insurance. If an individual had 70 percent coverage under crop insurance and his long-term average yield was 50 bushels, the price guarantee payment, if triggered, would apply to 35 bushels regardless of his actual yield for that year. If he realized 20 bushels per acre, he would receive a crop insurance payment at market price on 15 bushels plus the price payment on 35 bushels. Assuming the guaranteed price (long-term average price) to be $4 per bushel and market price at $3 per bushel, payment under the program would be $1 per bushel. In the above example, the producer would get $45 per acre (15 bu × $3) from crop insurance on his production shortfall plus $1 per bushel from the price guarantee ($15) for a total of $60 on his shortfall. For the realized 20 bushels per acre, he would get $60 from market price and $20 from the price guarantee or $80. In total, he would realize $140 whereas he would have realized only $105 with crop insurance.

The program could be made available to producers without crop insurance, however, the price guarantee would only apply to his **actual** yield. If he produced 20 bushels, the price guarantee would apply to 20 bushels. His coverage level under the price guarantee would be some percentage of area-average yield, e.g. 70 percent. If the long-term area-average yield was 40 bushels per acre, the price guarantee would apply up to 28 bushels, but not to exceed his actual production for that year.

All quantities of grain produced in excess of crop insurance coverage would be marketable at the prevailing market price without support.

Advantages of this program are:

* It would provide, along with crop insurance, a minimum form of direct income stabilization to prairie grain producers;
* It would complement and reinforce the existing crop insurance program;
* It would not detract from the broader and more general purposes of the WGSP;
* It would free the CWB to set its initial prices in accordance with the market forces;
* The quantity of crop sold above the volume eligible for the price guarantee, would:
  a) Permit individual farmers to decide for themselves how to allocate their resources and to control or not to control their production;
  b) Grains would be priced in a way that would not disadvantage the livestock producer.
* It would remove the need for emergency **ad hoc** programs.
* It should add little, if any, further costs to the total costs already committed to the overall stabilization of the grain industry.

Recommendations

It is recommended:

1987 — That immediate initiation of the "Prairie Grain Revenue Insurance Program" be pursued at the highest level, with consultation among the premiers of the prairie provinces, the federal minister of agriculture and the federal minister responsible for the Canadian Wheat Board.

— Total costs of the program should be shared equally between the federal government, provincial government and the producer.

— That the program be voluntary.

— That the program be available to producers with or without crop insurance.

— Where a producer takes both WGSP and the "Prairie Grain Revenue Insurance Program", there may be a need for some integration to avoid double indemnities and provide associated premium adjustments.

— That the program be administrated through AHCIC.

— Subject to approval to proceed, considerable additional research will be required in respect to program development and administration.

1.8.2 Disaster Insurance Program

Background

The two back-to-back major droughts in Alberta during 1984 and 1985 had a severe impact on many aspects of the Alberta Hail and Crop Insurance Program:

— The average-area yields, particularly in Risk Area 1 and 2 fell drastically.

— Crop insurance coverage levels have begun to decline under the ten-year moving-average base.

— Indemnities in the amount of $419 million were paid out during 1984 and 1985.

— Good experience coverage adjustments and premium discounts earned over time by producers in many instances have been lost through no fault of their own.

— The AHCIC reserves and the Canada-Alberta reinsurance reserves moved into a deficit position.

A need exists for a "disaster" insurance program at affordable premiums to alleviate uncertainties among producers and greatly reduce the need for government emergency **ad hoc** programs.

The advantages of a disaster program are:

— Provide governments with a systematic budgeting process to offset the problem.

— Provides a mechanism whereby the producer would share in the cost.

— Provides producers the opportunity to participate in a low cost disaster insurance program without having to participate in basic crop insurance.

— Provides producers with the knowledge that they do have some protection in the eventuality of a disaster.

— A disaster program available to all producers, regardless of whether they participate in crop insurance or not, would go a long way in easing governments out of **ad hoc** emergency payments, particularly if the premium is kept very affordable to the producer. A high level of participation is required.

— It would still be necessary to maintain the reinsurance funds for basic crop insurance, but perhaps at a lower level.

— The cost of the disaster insurance program should be more than offset by the elimination of **ad hoc** programs. Disaster insurance would trigger a payment only on an individual's cropping record, as in crop insurance, if the individual is within the disaster area. Hence, blanket area-wide payments would be avoided.

— Contingent upon the deductible for basic insurance (20-80%) being made available, it would be to the advantage of a person with basic insurance to take out "disaster" insurance since this would pick up the deductible and increase his claim should a disaster be declared. The premium and coverage could also be indexed in such a manner that a disaster would not impact on either premium rate or coverage for basic insurance.

— The person with only "disaster" insurance would be covered at perhaps a lower level than basic coverage, say at 50 percent of long-term area-average yield.

Recommendations

1987(p) — Work should start immediately on development of a long-term disaster insurance program for implementation by 1988.

— The disaster insurance program should be an integral part of the basic insurance program, not a separate and independent policy. Contingent upon Federal involvement, integration could be achieved by appropriate amendments and changes in the existing Basic Hail and Crop Insurance Program and the Canada-Alberta insurance agreement.

— The disaster program should include the following conditions:

* Disaster insurance should be voluntary.
* All Alberta producers should be eligible to participate whether they have crop insurance or not.
* Extraordinary indemnities of crop production loss realized by a defined disaster would be paid from the disaster fund.
* The fund would be established by legislation and remain separate and distinct from AHCIC funds.
* The fund would be administered through the AHCIC and payments of indemnities would be based on the same criteria as now used by the AHCIC.
* There would be no double indemnities vis-a-vis AHCIC payments and disaster payments.
* The Livestock Feed Security Program needs examination to determine how well it meets the need for a "disaster". There may be a need for a livestock feed security provision under the disaster program.

— The disaster would be based on area criteria such as: consecutive years of loss; losses beyond a certain magnitude; and that a certain proportion of the producers in the area would suffer a defined loss.

* An area designated as a disaster area should be large enough to give meaning to the disaster insurance program. For example, an area somewhere between 10 or 15 townships may be a suitable size for a "disaster" area.
* The term "disaster" might be defined, for example, as one where over 50 percent of the producers in the designated area received crop insurance indemnities and where the total indemnity/total liability ratio for the designated area exceeds 15 percent.

— "Disaster" insurance implies systematic budgeting expressed as an annual premium levy sufficient to pay out disaster indemnities as experienced at infrequent intervals.

* Total cost (premiums and administration) should be equally shared between the federal government, provincial government and producer. An initial contribution to the fund may be required by governments.
* Premiums should be established at an affordable level, e.g. 50 cents to 1 dollar per acre cost to the producer. Based on predicted revenues, coverage levels could be based on the probability of risk from disaster as defined.

— Coverage levels might be somewhat lower than used for basic crop insurance, perhaps in the area of 50 percent of the long-term area-average yield.

— Indemnities should be sufficient to offset the major effects of an area-wide crop disaster, while at the same time protecting the fundamental integrity of the basic crop insurance program.

* When a crop insurance area is declared a "disaster area", extraordinary indemnities would be paid from the disaster fund. Coverage levels and premium rates under crop insurance would, therefore, not be affected. The actuarial integrity of crop insurance is maintained without premium or coverage adjustments for the "disaster" portion of indemnties.

* If a coverage deductible (20-80%) is applied to basic crop insurance, then a producer with both crop insurance and disaster insurance would receive full indemnity.
* Once the disaster area is defined, indemnities would be based on individual yield adjustments as is now done under crop insurance.
* An automatic formula would trigger the disaster insurance provision for an area when a major crop loss disaster is encountered. Approved claims based on yield adjustments would be indemnified both with respect to "disaster" and crop insurance without double indemnity. A producer with only disaster insurance outside a declared disaster area would receive no indemnities.

— Perils subject to "area-wide" risk would be included under "disaster" insurance, e.g. drought, frost, snow and flood.

— Considerable study would be required to determine the probability of disaster and premium rates to maintain actuarial financial integrity of the program.

1.8.3 Crop Insurance

1.8.3.1 Coverage

The coverage level for crop insurance is a function of yield and grain prices. In dollar terms, coverage level declines with declining grain prices. Because of declining grain prices, considerable concern was expressed at the hearings with respect to the inadequacy of crop insurance to cover input costs. Concern was also expressed with respect to the low prices realized for harvested grain which may be below input costs.

As stated under principles of crop insurance, Chapter 2, crop insurance can only insure against loss of yield. Crop insurance should never compensate at a price higher than market price. If this is done, the system will be open to widespread abuse because a producer could actually receive more money for not growing or harvesting a crop than he could receive had he put forward every effort to grow or harvest his crop.

A third concern expressed was the reduction of coverage levels caused by the widespread drought of 1984 and 1985. This resulted in loss of good experience for many producers as well as reducing the 10-year moving area-average yield.

A coverage deductible could be applied, e.g. **20 - 80 percent**, where the producer would not be covered on the bottom 20 percent of his long-term average yield. For instance, if his average yield was 50 bushels per acre, his coverage would extend from 10 bushels to 40 bushels. This would help overcome abuse and provide greater flexibility to the producer and the adjuster in writing a crop off insofar as insurance is concerned.

Recommendations

— Coverage levels must remain on a yield basis tied to market price for payment purposes. Price and market protection are discussed in "Prairie Grain Revenue Insurance Program".

— Under the Canada Crop Insurance Act, crop insurance cannot exceed 80 percent of the long-term average yield. It is recommended that an 80 percent coverage option be adopted in addition to the existing 60 and 70 percent options.

— In consideration of the declining dollar coverage due to falling grain prices, the Alberta coverage restoration program should be continued for 1987.

— With a view to moving towards a system of establishing coverage levels less sensitive to yield variation in any one year, a study is required to determine the feasibiliy of adapting a 15-year moving average adjusted for trends in technology.

1.8.3.2 Individual coverage

Throughout the hearings, producers expressed concerns that the existing methods used in determining coverage levels based on risk-area average and soil classes do not reflect the yield variation due to differences in individual management.

Coverage adjustments for good experience are based on number of claims and the loss-to-premium ratio and do not necessarily reflect the actual yields. Hence, many producers are under-insured and many are over-insured. Over-insurance can lead to abuse of the system. These observations are backed by research findings (Chapter 7).

Given these concerns, producers are generally of the opinion that some means is required to more accurately reflect an individual's production capabilities relative to his/her peers. The only accurate method for yield determination is to measure an individual's production. Coverage and claim status can then be related directly to individual yield history.

Individual coverage is now an option. However, there are only 450 producers using it. For every three that take the option, two drop off and return to basic coverage. Why is this? Briefly, it is because the traditional area-average coverage system has a number of significant advantages over individual coverage (Chapter 8). Under the present system, unless an individual has very high yields, individual coverage is simply not competitive with area-average coverage. Many of these anomalies have evolved over time in an attempt to reward good experience. This has resulted in coverage estimates which at best are rough proxies of an individual's actual yields.

There are a number of advantages associated with individual coverage:

— Coverage adjustment for good experience would be withdrawn. Coverage level adjustment as applied tends to significantly increase the levels above the

mean. Basic premiums are presently "top loaded" by 40 percent largely to compensate for coverage adjustments for good experience, i.e. few claims and low premium-to-loss ratios.

— "Top loading" of premiums could be greatly reduced resulting in considerable cost savings, assuming everything else remains the same.

— Each producer would have an insurable production level based on his own productivity.

— It may be possible to establish a premium rate by crop on a provincial risk basis as is done in Ontario and Quebec. This would overcome the need for a high-risk subsidy, risk areas and soil classification.

— Premium discounts and surcharges would apply depending on individual experience.

— Abuse of the system would be reduced.

— Contingent upon individual coverage, there has to be an offset for acceptability. An offset could be to include a coverage level option of 80 percent of an individual's moving-average yield with the total cost of the program shared on a tripartite basis between the producer, federal government and provincial government. The total cost of the program would increase by about 37 percent. The cost to the producer and the federal government would remain about the same. The cost of enhancing the program would be borne mostly by the province.

The main disadvantages to individual coverage are:

— The logistics of verifying yields for all policy holders.

— Many producers do not have acceptable yield records to establish a five- or 10-year moving average on individual yield. Initially, area-average yields, perhaps adjusted for experience, would have to be used and replaced by actual yields over time. Other means may need to be evaluated.

Aside from the disadvantages, by moving to individual coverage the program can be greatly simplified, particularly if a base premium rate can be established provincially. There may be no need for risk areas, soil classification, fallow-stubble differentials, high-risk subsidies or coverage adjustments. Premium rates could be discounted or surcharged depending upon individual experience. The wide variation in management would be reflected in individual productivity. Objections to resource neutrality would be overcome.

Recommendations

1988 — Contingent upon 80 percent or 20 - 80 percent coverage option being made available and a tripartite arrangement for the sharing of premiums, individual coverage for all producers should be adopted by 1988. The need for a system to determine coverage level by phasing in actual yields as they become available is recognized.

— Individual coverage be based on a form of indexing of the basic area coverage; the index is to be based on a moving average of the producer's individual yields compared to an area-average yield.

— Premium rates be discounted or surcharged depending upon an individual's loss experience.

1.8.3.3 Area-average coverage

Should a complete transition to individual coverage not be accepted, then several major modifications would be required with respect to the existing program. Area-average coverage should be compatible with the individual coverage option. Research results (Chaper 7) shows considerable variation within risk areas. Also, lower classified soils generally have higher risk, which may not be fully reflected in premiums. It appears that there may be considerable cross subsidization both within and between risk areas. Coverage adjustments which do not necessarily reflect actual yields result in both under- and over-coverage. The way it is applied, far more producers have coverage levels above the area-average yield than below. Associated problems caused by this skewness are explained in 1.8.3.1.

Recommendations

— To reduce abuse, all producers with a high frequency of claims and/or high loss-to-premium ratios should be placed on individual coverage.

— An average adjustment method to more accurately reflect actual yields needs to be developed.

— Risk areas and soil classifications require refinement to achieve greater homogeneity and improved equity in the system.

— With a view to moving towards a system of establishing coverage levels less sensitive to yield variation in any one year, a study is required to determine the feasibility of adapting a 15-year moving average adjusted for trends in technology.

1.8.3.4. General recommendations

Premiums

Producers require more insurance protection, but do not appear to fully realize the extent to which premiums escalate with increasing coverage.

Recommendations

1988 — Total program costs (administration and premiums) should be shared equally between the federal government, the provincial government and producers. This is contingent upon moving to individual coverage and an 80 percent coverage option being made available.

1988 — Premium surcharges should be applied to producers with high claims while discounts should be credited to producers with few claims.

1988 — The premium rate should be applied directly

to a contract holder's coverage level. Changes in dollar-per-acre coverage would result in changes in dollar-per-acre premiums.

Abuse

Producers are concerned with the potential for abuse and/or misuse of the current crop insurance program. The review panel received a strong endorsement to recommend methods to tighten the system.

Recommendations

1987(p) — The AHCIC should consistently enforce their prerogative to temporarily disqualify producers from the crop insurance program in instances of fraud. Producers realize the corporation wishes to err on the side of the producer, but feel a tightening of this area is warranted.

1988 — If the program is to be maintained in its present form, individual coverage should be mandatory for clients with a high incidence of claim

1987 — Where indicated, the AHCIC should conduct strict field inspections, random preharvest checks and perhaps utilize weather data in verifying the legitimacy of a claim.

1987(p) — Individual claim submissions should be analyzed relative to area. The AHCIC may have to restrict the number of successive years in which a producer can receive a payout.

1987 — Penalties for misuse or fraud should be reviewed in terms of severity. If deterrents are not effective, increasing the frequency and magnitude of penalties is warranted.

Policy issues

Recommendations

1987 — Crop insurance must remain voluntary.

1987 — An independent appeal tribunal should be established to separate the AHCIC from disputes with producers. Members of the appeal tribunal should be appointed by Order in-Council and be fully knowledgeable of the program.

1987(p) — The research capability within the AHCIC should be increased and co-ordinated with analytical capabilities within Alberta Agriculture. Considerable work can now be done since a significant amount of historical data is available.

1988 — Enhance the AHCIC computer system's capability throughout the province. District offices should be "on line" with head office. Initially this should be a pilot project and reviewed in terms of cost and effectiveness.

1987 — Where an individual significantly increases the production base of any enterprise, the AHCIC may insist that coverage be based on a weighted average of the area average yield and his coverage level as of the previous year.

1987 — Alberta Agriculture extension staff need to work more closely with AHCIC personnel so as to be more informed with regard to crop insurance program on an ongoing basis.

1987 — Additional investigative resources may be required for areas of possible fraud. There is a need to co-ordinate investigations with pertinent information that may be available in Alberta Agriculture programs.

1987(p) — Reinsurance arrangements should be reviewed to ensure the financial integrity of the crop insurance program.

1987 — Training district staff should be given a higher priority.

1987(p) — The AHCIC must develop a more market-oriented approach to selling crop insurance.

— The head office of AHCIC should remain intact and in Lacombe.

— To ensure continuity in AHCIC management, consideration be given to arranging understudy positions for senior executives.

1987 — The board of directors should be increased to nine to assure that geographical representation, particularly from the Peace River area is achieved. There should be continued representation from irrigation districts. The Directors should be appointed by Order-in-Council on a rotational basis for a three-year term with a maximum of two consecutive terms. A member of the legislature should be appointed to the board, however, the chairman should not be a member of the legislature. In this way, the government would have greater flexibility and perhaps better representation. All other Directors should be producers. Ex-officio representatives from Agriculture Canada and Alberta Agriculture should also be appointed.

Administrative issues

Recommendations

1987(p) — Make more information available to producers in written form and through seminar presentations. Seminars could be an integral part of other agriculture extension meetings.

1987 — To provide producers with concise, up-to-date information, district staff should be knowledgeable in all aspects of crop insurance.

1987(p) — Answering machines should be installed in district offices.

1988 — Review the need for additional satellite offices.

1987 — Ensure premium rate and coverage manuals are available to all producers prior to the election deadline for insuring crops.

1987 — Pre-harvest inspections, especially hail adjustments, should be more prompt so the producer can proceed with field operations.

AHCIC performance

Recommendations

1987 — To assure consistency in adjustments, field personnel should receive standard training and be fully competent in all aspects of field work. A working knowledge of all policy changes should receive a high priority.

1987(p) — Personal observations regarding the attitude of claimants upon inspection should be recorded separately from the adjuster's form and remain confidential to the corporation. The provision for remarks on "attitude" should be removed from the form.

1987 — Both pre-harvest and post-harvest inspections should be used when necessary to adjust a claim.

Livestock Feed Security Program

Recommendations

The existing program must be thoroughly reviewed to make sure it is actuarially sound and that it meets the needs of the producers.

1988 — Contingent upon appropriate modification, make the Livestock Feed Security Program applicable throughout the province.

1988 — Further study is required to determine the feasibility of the following: providing coverage levels and/or claims on an individual rather than on an area average basis, eligibility of older hay fields, hail endorsement, insuring pastures, allowing a producer to insure a specific portion of his/her forage acreage, and extending coverage to include losses in production or quality of forages from excess moisture.

C — The actuarial integrity of the program should be continually monitored to ensure a financially sound and equitable program.

1988 — Study the feasibility of including an option of coverage on the year in which forage is established.

Experience adjustment

Producers argue that an individual's coverage should not be affected by an area-wide disaster. In addition, good experience credits decline at a faster rate than they can be acquired.

Recommendations

1988 — Premium adjustments should include surcharges as well as discounts and be calculated separately for each crop.

1987(p) — The rate of increase and decrease of the coverage adjustment mechanism should be re-examined. At present, the rate of decline exceeds the rate of adjustment increase.

1988 — An individual's premium and coverage level should be indexed to participants in the immediate area to offset the effect of coverage level adjustments due to widespread disasters.

Deadline dates

Recommendations

1987 — The seeding deadline dates should be reviewed with respect to regional variations in the length of the growing season.

1988 — Regulations to receive a summerfallow designation on ploughed-down crops should be reviewed by crop and be adjusted to allow for regional variations in the length of the growing season.

1987(p) — The application of interest charges on unpaid premiums should be set back to October 1 to allow producers a chance to receive some remuneration from the sale of crops.

1987(p) — For "pure" alfalfa stands, the plough-down date for fallow designation eligibility should be the same as that set for clovers.

Spot-loss provision

Crop insurance is intended to be a production guarantee set at some percentage of total average productivity to provide insurance against disasters from natural perils. Spot-loss coverage is not practical due to the difficulty in assessing pre-harvest damage of many perils, potential for high losses and prohibitive cost and actuarial integrity and equity between producers.

Recommendations

— Spot-loss coverage other than under the hail endorsement, is **not** recommended.

C — Spot-loss from flood may be considered under a disaster program.

Summerfallow/stubble

Recommendations

1987(p) — The fallow-stubble yield differentials are wider in many risk areas than actual yield data indicate. Yield differentials should be re-adjusted to reflect current spreads and continually changing technology.

1987(p) — When fallow-stubble differentials are small, the distinction may be omitted.

Types of crops insurable

Recommendations

C — Continued research is required to assess the feasibility of providing insurance for fresh vegetables, market gardeners and forage seed producers.

1987(p) — The feasibility of insuring different varieties of potatoes on separate contracts should be examined. Potato prices vary considerably depending on end use.

1987(p) — Research is required to assess some minimum level of coverage for new crops lacking historical yield data, e.g. cover for a production loss not to exceed 50 dollars per acre until historical records are accumulated.

1987(p) — Consideration should be given to insuring cereal silage crops (annual crops) separately from cereal grain crops as an elective.

Perils insurable

Recommendations

1987 — Coverage should continue to be offered as insurance against an assortment of natural perils (all perils) rather than on an individual peril basis.

Wildlife depredation

Private lands are an integral part of the habitat base required to sustain wildlife. Society as a whole has ultimate responsibility for the preservation of wildlife and wildlife habitat. Full compensation to producers who have sustained wildlife damage is necessary to encourage the preservation of lands suitable for wildlife habitat.

Recommendations

1987(p) — A comprehensive program should be developed to fully reimburse producers for all losses due to wildlife damage. Compensation should continue to be paid through a wildlife fund without premium costs to farmers. Administration of the program should remain a responsibility of the AHCIC.

Quality adjustments

Recommendations

1987(p) — An evaluation of the quality adjustments mechanism is required to ensure that no inequities in the factoring process exist for one crop relative to another. A better method of factoring quality for soft white spring wheat is needed.

— Yields should **not** be factored up if grades are better than the base grade used by the AHCIC.

1987 — Quality adjustments should be used only for adjusting claims, not for establishing coverage levels.

Farm contracts

Recommendations

1987(p) — The 15 mile limitation required for separate contracts should be reviewed but maintained unless evidence is provided to indicate a problem with grain movements.

Farm-size discounts

Recommendations

1987 — The farm-size discounts should be discontinued since research indicates there is little or no reduction of risk as farm size increases.

Irrigation vs. dryland

Combining irrigated and dryland acreages reduces the chance of initiating a claim since yields on irrigated lands tend to outweigh any deficiencies encountered on dryland.

Recommendations

1987(p) — Separate contracts should be allowed for crops grown on irrigated lands and dryland. Both pre-harvest and post-harvest inspections should be conducted where the same crops are grown to counteract the potential for grain movement and/or difficulties in adjusting.

Straight hail insurance

Recommendations

1987(p) — Straight hail insurance should remain an option to producers, with a review of coverage levels available to vegetable growers who do not sell through a marketing board.

Price options

Crop insurance is a production guarantee; however, for practical administrative reasons, premiums and levels of coverage are expressed in dollars. Some producers have expressed confusion with this practice, claiming they misunderstood the degree of protection purchased. Prices

used for crop insurance must be close approximations of market price.

Recommendations

1988 — Premiums and levels of coverage should be expressed in bushels (kg) per acre when producers make crop elections. Prices for "Board" grains could be set equal to the CWB initial prices when announced, while the futures market may be utilized to establish non-board prices. Further research should be conducted to assess the feasibility of this approach.

Speciality crops

Recommendations

C — Boundary limitations delineating areas in which speciality crops are approved for insurance should be continuously reviewed to accommodate new adaptations in technology (e.g. earlier varieties).

1987 — Eligibility to insure beehives should be set at 50 hives.

High-risk subsidy

The high-risk subsidy was established by the Province of Alberta to ensure that no producer pays a premium in excess of 6 percent or 8 percent at the 60 and 70 percent coverage levels, respectively. The high-risk subsidy generally applies to lower classified soils which, on average, have lower yields and higher risks.

Recommendations

1988 — The high-risk subsidy should be maintained within the context of the existing program. If the individual coverage recommendation is adopted, risk could be spread over all participants with credits and surcharges levied on an individual basis. This implies a uniform premium rate throughout the province.

Privatization

During the course of the public hearings, several private insurance agents expressed interest in selling all-risk crop insurance and/or hail endorsement insurance. The potential benefits to which they alluded include an established network of agents and offices, efficient and professionally trained sales personnel, aggressive selling and the availability of other farm insurance policies.

Recommendations

— The interest shown by the private sector in marketing all-risk crop insurance should be considered in developing a future marketing strategy.

1.9 Conclusions

Far reaching recommendations have been presented with the objective of enhancing the crop insurance program to better meet the needs of the producer. Because of the existing cost-price squeeze, producers have generally argued for a system that would protect their input costs at affordable rates. As shown, it is impossible to meet this need by crop insurance alone. In addition, others with relatively low risk need disaster protection at low cost.

It is the desire of governments to withdraw from **ad hoc** programs in favor of systematic cost-sharing programs that can be developed on an actuarial base. This will allow for systematic budgeting and the spreading of costs more equally over time. Producers in general are not happy with **ad hoc** programs because of inequity and the uncertainty of whether any payment will be made.

Finally, producers in general feel that individual coverage would be more equitable and help overcome abuse.

To meet these challenges, three major recommendations have been made:

— Entering into immediate negotiations with the federal government and Manitoba and Saskatchewan governments for development of a Prairie Grain Revenue Insurance Program with a tripartite cost sharing arrangement.

— Developing a "disaster" insurance program with a tripartite cost sharing arrangement for 1988.

— Moving to individual coverage, contingent upon offering an 80 percent coverage option (in addition to 60 and 70 percent now available) and equal sharing of costs between each level of government and the producers for 1988.

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